



Arnold Schwarzenegger, Governor  
State of California  
Business, Transportation and Housing Agency

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via electronic mail & UPS

Ms. Janette Lopez  
Chief Deputy Director  
California Managed Risk Medical Insurance Board  
1000 G Street, Suite 450  
Sacramento, CA 95814

**RE: EVALUATION OF VENTURA COUNTY HEALTH CARE PLAN MEDICAL LOSS  
RATIO SUBMISSION**

Dear Ms. Lopez

The Department of Managed Health Care (DMHC) is pleased to provide the Managed Risk Medical Insurance Board (MRMIB), Healthy Families Program (HFP) with the following report regarding the evaluation of Ventura County Health Care Plan (VCHCP or Plan) HFP loss ratio submission for the period July 1, 2007 through June 30, 2008. This report outlines the project objectives, methodology and results.

I Objectives: The purpose of the loss ratio evaluation is to evaluate the underlying payments supporting the amount reported as benefits provided to HFP subscribers reported by VCHCP.

As part of this evaluation, DMHC will perform the following:

- A Determine whether 100% of the children who received services paid by VCHCP were enrolled in the HFP at the time the services or capitated coverage were provided;
- B Summarize the total capitation and benefit payments within the detailed data provided by VCHCP and compare the total payments to the amount reported on Schedule 6 submitted by VCHCP;
- C Identify and document additional reimbursements made, other than payments to providers for services, by VCHCP, and evaluate the appropriateness of those payments to inclusion in the medical expenses reported on Schedule 6; and
- D Summarize the total payments made by VCHCP for the HFP subscriber, and based on the steps above, recalculate the loss ratio and compare it to the loss ratio submitted by VCHCP on Schedule 6.

To achieve the objectives outlined above, the DMHC performed data analysis on information provided by MRMIB and VCHCP and corresponded with management personnel at VCHCP. Primary contacts at VCHCP were Larry Keller, Insurance Services Administrator, Terrie Stanley, CFO, Dee Pupa, Fiscal Manager and Sharon Clack, Supervising Accounting Officer. The methodology and results for each of the objectives are described below.

## II Methodology

### **A Determined whether 100% of the children who received services paid by VCHCP were enrolled in the HFP at the time the services were provided.**

- (a) The Department obtained electronic files containing detailed capitation or claims payments made for HFP subscribers. Additionally, the Department obtained electronic files from MRMIB of all children eligible for which payments were made for benefits as a VCHCP subscriber during the period of July 1, 2007 through June 30, 2008.
- (b) Using the two files, the Department compared the Client Index Number (CIN) and Date of Service on VCHCP's capitation files to determine if there were any payments made by VCHCP for subscribers that were not eligible for benefits according to the eligibility file received from MRMIB.

Table 1 –Capitation, Fee for Service or Pharmacy payments for individuals that were not listed as eligible members per the data files provided by Maximus for the service periods under examination.

**Table 1** (Ineligible Expenditures)

Claims/Capitation Payments Category	Data Base Total		Ineligible Data		
	Number of claims/services	Amount	Number of claims/services	Amount (footnote 1)	Percent Error on Amounts
Capitation payments	48,647	\$266,234	442	\$4,630	1.74%
Fee-for-Service Payments	11,460	\$1,421,588	47	\$7,637	0.54%
Pharmacy Payments	6,224	\$227,765	28	\$304	0.13%
Total	66,331	\$1,915,587	517	\$12,571	0.66%

Notes for Table 1: Capitation, FFS and Pharmacy payment mismatches identified during the examination were identified to the Plan during the course of the examination. The discrepancies noted in the areas of Capitation, FFS and Pharmacy were considered to be de minimus and although identified in Table 1 above were not recommended as audit adjustments.

### **B Summarized the total capitation and benefit payments within the detailed data provided by VCHCP and compare the total payments to the amount reported on Schedule 6 submitted by VCHCP.**

Using the electronic file received from VCHCP in Section II (A) (a) above, and VCHCP's Schedule 6 loss ratio submission provided by MRMIB, DMHC compared the total of the payments on the electronic files to the data on Schedule 6.

*Footnote 1: This analysis represents payments made by the Plan to their contracted providers, not payments made by MRMIB to the Plans.*

**Table 2** (difference between Sch 6 reported and database detail)

Description	Sch 6	Plan Data	Difference	Percent Difference
Capitation Payments	\$270,318	\$266,234	(\$4,084)	-1.53%
Fee-for-Service Payments	\$1,420,871	\$1,421,588	\$717	0.05%
Pharmacy Payments	\$227,684	\$227,765	\$81	0.04%
Total	\$1,918,873	\$1,915,587	(\$3,286)	-0.17%

**Note 1:** The data base provided by VCHCP was analyzed based on the period of service and has been determined the most accurate measure of medical expense for the period of the examination. The data base included a review of costs identified through May 2009 after the exam period to ensure capture of all amounts which would have been identified via accruals/IBNRs.

**Note 2:** The discrepancies between Schedule 6 and Plan's data base were considered immaterial and although identified in Table 2 above were not recommended as audit adjustments.

**C Summarized the total payments made by VCHCP for the HFP subscriber, recalculated the loss ratio, and compared it to the loss ratio submitted by VCHCP on Schedule 6**

Table 3 – Detailed reconciliation of detailed data files to Schedule 6

**Table 3**

	CATEGORY	REPORTED ON SCHEDULE 6	BALANCE PER DMHC REVIEW	VARIANCE OVER/(UNDER)
	Subscriber Months		37,900	37,900
1	Premium Payments from State	\$2,916,512	\$2,879,991	(\$36,521)
	<b>Affiliated Entities and Nonaffiliated Entities</b>			
2	Incentive Payments to Affiliated Parties	\$0	\$0	\$0
3	Incentive Payments to Nonaffiliated Parties	\$0	\$0	\$0
4	Total Incentive Payments	\$0	\$0	\$0
	<b>Expenses</b>			
	<b>Medical and Hospital</b>			
5	Inpatient Services - Capitated	\$0	\$0	\$0
6	Inpatient Services - Per Diem	\$0	\$0	\$0
7	Inpatient Services - Fee for Service/Case Rate	\$160,852	\$160,852	\$0
8	Primary Professional Services - Capitated	\$270,318	\$270,318	\$0
9	Primary Professional Services - Noncapitated	\$491,646	\$491,646	\$0
10	Other Medical Professional Services - Capitated	\$0	\$0	\$0
11	Other Medical Professional Services - Noncapitated	\$313,297	\$313,297	\$0
12	Noncontracted Emerg Room and Out-of-Area Exp, not incl POS	\$0	\$0	\$0
13	POS Out-of-Network Expense	\$0	\$0	\$0
14	Pharmacy Expense	\$227,684	\$227,684	\$0
15	Other Medical Expense	\$455,076	\$455,076	\$0
16	Aggregate Write-ins for Other Medical and Hospital Expense	\$132,765	\$132,765	\$0
17	Total Medical and Hospital (lines 5 to line 16)	\$2,051,638	\$2,051,638	\$0
A	<b>Gross Profit</b>	<b>\$864,874</b>	<b>\$828,353</b>	<b>(\$36,521)</b>
B	<b>MEDICAL LOSS RATIO</b>	<b>70.35%</b>	<b>71.24%</b>	

**Note 1:** Premium per exam is \$36,521 lower than the amount reported on schedule 6. Premiums were determined per exam based on the period of coverage identified within the MRMIB data files provided. Since VCHCP reports premiums based on “amounts” received and receivable, there will be a timing difference between the methodology of VCHCP and the examination, due to the existence of significant retro activity in the MRMIB data. The examination data which accounts for premiums based on period of coverage is the more accurate methodology.

**Note 2:** The Other Medical Expense category includes network access fees and health care service utilization costs and quality improvement costs.

### III Summary of Findings/Issues

The Plan overstated \$36,521 premium payments from the state on the Plan's Schedule 6. \$36,521 has been deducted from Schedule 6 to reflect the actual premium payments received from State.

### III Limitations

This analysis and report were prepared solely for the purpose of assisting MRMIB in the determination of the accuracy of payments made by VCHCP on their Schedule 6 Medical Loss Ratio Report. We have not performed an evaluation of the Company's internal controls within the guidelines set forth by the AICPA but have reported to you based upon the procedures performed. Our analysis has not been a detailed examination of all transactions, and cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or defalcations that may exist.

Please feel free to call us if you have any questions pertaining to this report.

Sincerely,



Shuzhi Wei, Examiner  
Division of Financial Oversight



Stephen Babich, Supervisor  
Division of Financial Oversight

cc: Lan Yan, Federal Compliance auditor, MRMIB  
Tony Lee, Chief Fiscal Services, MRMIB  
Stephen Babich, Supervising Examiner, DMHC